Government of Saskatchewan

Annual Report 2003-2004

Agricultural Credit Corporation of Saskatchewan

Saskatchewan Centennial 2005

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Letter of Transmittal

Her Honour, The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

May It Please Your Honour:

I respectfully submit the Annual Report of the Agricultural Credit Corporation of Saskatchewan for the fiscal year ended March 31, 2004.

Respectfully submitted,

Mark Wartman
Minister of Agriculture and Food
Minister Responsible for the Agricultural Credit Corporation of Saskatchewan

Year in Review

The ACS loan portfolio was reduced from $54.9 million to $45.4 million while the number of loans decreased from 3,248 to 2,181. In addition, ACS holds assets of $7.7 million that were acquired as the result of settlement, quit claim or foreclosure.

The BSE Livestock Loan Guarantee Program was enacted in September 2003 under The Agricultural Credit Corporation of Saskatchewan Act in response to the May 2003 border closure. The program was designed to provide support to livestock producers affected by export market restrictions and to assist with cash flow. The loans were available at financial institutions and are 100 per cent guaranteed by the Government of Saskatchewan. Lending institutions disbursed a total of $35.4 million to 2,733 producers. All loans are to be fully repaid by January 31, 2008.

ACS continues to work diligently and sensitively with customers. We have made good, steady progress on loan portfolio collection. However, delinquencies are not significantly decreasing as a result of unfavourable weather conditions, BSE related problems and the state of the agricultural industry in general.

The Agri-Food Equity Fund (AFEF) continues to be wound down. The remaining investment portfolio of $24.8 million is invested in 20 companies. Several companies in AFEF's portfolio were affected by BSE, drought, chronic wasting disease and other negative impacts associated with the agriculture industry. As a result, these companies required extensions or restructuring of their investments. Exiting strategies for most of the investments will continue along the original repayment or redemption schedules.

Management's Responsibility for the Annual Report

The Agricultural Credit Corporation of Saskatchewan's (ACS) management is responsible for the preparation, integrity and fair presentation of the financial statements and other information in the Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where estimates are used, they are based on management's best judgement. Financial and operating information provided elsewhere in the Annual Report is consistent with that contained in the financial statements.

ACS maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is accurate and reliable and that corporate assets are adequately accounted for and safeguarded. The Board of Directors oversees the systems of internal accounting and administrative controls. Management and the Corporation's external auditors met periodically throughout the year to review their respective responsibilities and to discuss audit plans, the results of reviews of internal accounting controls, policies and procedures and the financial statements and notes thereto.

The Board of Directors has approved the financial statements and the other information in this Annual Report. In addition, the financial statements have been audited by Meyers Norris Penny LLP whose report follows.

Joe Rakochy
Manager

David Boehm
Director

Swift Current, Saskatchewan
April 22, 2004

Auditors' Report

To the Members of the Legislative Assembly, Province of Saskatchewan:

We have audited the balance sheet of Agricultural Credit Corporation of Saskatchewan as at March 31, 2004 and the statements of operations and surplus and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Regina, Saskatchewan
April 22, 2004

Chartered Accountants

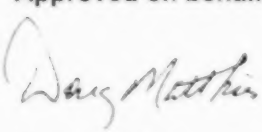
Agricultural Credit Corporation of Saskatchewan
Balance Sheet
As at March 31, 2004

(in thousands of dollars)

	2004	2003
Assets		
Cash and short term investments	**179**	3,465
Accounts receivable	**–**	64
Due from the General Revenue Fund	**4,259**	–
Loans receivable (Notes 4 and 5)	**34,856**	40,255
Assets held for resale (Note 7)	**4,886**	6,052
Investments (Note 6)	**4,928**	5,685
	49,108	55,521
Liabilities		
Interest and other accrued payables	**2**	988
Provision for loss on Livestock Drought Loan Program (Note 10)	**1,800**	1,800
Provision for loss on BSE Loan Program (Note 10)	**5,295**	–
Notes payable (Note 8)	**9,100**	10,100
Long-term debt (Note 8)	**10,250**	23,767
	26,447	36,655
Equity		
Accumulated surplus	**22,661**	18,866
	49,108	55,521

Contingencies and commitments (Note 10)

Approved on behalf of the board



Doug Matthies
Director

Hal Cushon
Director

The accompanying notes are an integral part of these financial statements.

Agricultural Credit Corporation of Saskatchewan

Statement of Operations and Surplus

For the year ended March 31, 2004

(in thousands of dollars)

	2004	2003
Interest and dividend income *(Note 9)*		
Loans	**4,226**	5,390
Other interest	**181**	14
Dividend income	**218**	–
	4,625	5,404
Interest expense		
Long-term debt	**494**	2,885
Surplus before the following	**4,131**	2,519
Other (income) expense		
Livestock Drought Loan Program interest subsidies (Note 10)	**336**	199
Loan loss provision (recoveries)	**4,459**	(3,449)
Counselling and Assistance For Farmers recoveries (Note 4f)	**(200)**	(290)
Grants from General Revenue Fund (Note 11)	**(4,259)**	–
	336	(3,540)
Surplus for the year	**3,795**	6,059
Surplus - beginning of year	**18,866**	10,639
	22,661	16,698
Transfer of net assets from Agri-Food Equity Fund	–	2,168
Surplus - end of year	**22,661**	18,866

The accompanying notes are an integral part of these financial statements.

Agricultural Credit Corporation of Saskatchewan

Statement of Cash Flows

For the year ended March 31, 2004

(in thousands of dollars)

	2004	*2003*
Cash provided by (used for) the following activities		
Operating		
Surplus for the year	**3,795**	6,059
Items not affecting cash		
Loan loss provision (recovery)	**4,459**	(3,449)
Changes in working capital other than cash (Note 12)	**(5,624)**	1,780
Loan payments received	**8,601**	11,153
	11,231	15,543
Financing		
Repayment of long-term debt and notes payable	**(23,617)**	(20,434)
Cash transferred from Agri-Food Equity Fund	**–**	3,465
Proceeds from notes payable	**9,100**	4,700
	(14,517)	(12,269)
(Decrease) increase in cash	**(3,286)**	**3,274**
Cash and short-term investments, beginning of year	**3,465**	**191**
Cash and short-term investments, end of year	**179**	**3,465**

The accompanying notes are an integral part of these financial statements.

Agricultural Credit Corporation of Saskatchewan

Notes to the Financial Statements

For the year ended March 31, 2004

1. Status of Corporation

The Agricultural Credit Corporation of Saskatchewan (ACS) is a Corporation that acts as an agent of the Government of Saskatchewan and has provided financial assistance to encourage and promote the development and expansion of the agricultural industry in the Province. On March 28, 1996, the Government of Saskatchewan announced that the ACS portfolio would be wound down. All ACS employees were transferred to Saskatchewan Agriculture, Food and Rural Revitalization (SAFRR). However, ACS is still responsible for collection of the loan funds, monitoring loan collectibility and retirement of their debt.

2. Significant Accounting Policies

a) Under Section 29 of *The Agricultural Credit Corporation of Saskatchewan Act*, the Minister of Agriculture and Food may make grants to the Corporation out of monies appropriated by the Legislature. Grants may be provided for the payment of administration costs, for the payment of interest on funds borrowed, to defray losses on loans not repaid and for other purposes that may be determined by the Minister. Grant funds received for the fiscal year are for specific purposes. Any excess funds received for the fiscal year and not expended on each specific purpose are reported on the balance sheet as unexpended grants repayable.

New expenditures incurred in a fiscal year which exceed the grant provided for that purpose are reported as a deficit for the year and may be recovered from the grant to be received for that purpose in a subsequent year.

b) Amounts recovered from customers for capital grants paid to them in prior years and amounts recovered for guarantees paid under discontinued programs are retained by the Corporation and are reported as surplus.

c) Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and are included in interest expense on long-term debt.

d) The Corporation records, as assets held for resale, the fair market value, at the date of acquisition, of assets acquired through settlement, quit claim or foreclosure. Fair market value is determined by the market value of the assets acquired. These asset values are adjusted annually for carrying costs and for the income or loss from any operations associated with the assets. The provision for losses represents management's estimate of possible losses on assets held for resale.

e) Investments are accounted for at cost. A provision for investment loss is recorded representing management's estimate of likely losses based upon an individual review of the investments. It is possible that changes in future conditions in the near term could require a material change in the provision.

f) An allowance for impaired loans is maintained that reduces the carrying value of loans to their estimated realizable amount. A loan is classified as impaired when there is no longer reasonable assurance that the principal and interest will be collected in full. The Corporation records general allowances when evidence of impairment within groups of loans exists but is not sufficient to allow identification of individual impaired loans. ACS estimates impairment using a formula based on its loss experience for similar groups of loans in similar economic circumstances. Management performs a net present value calculation on a sample of loans within the loan portfolio and extrapolates the results of the analysis to the entire loan portfolio population. Estimated realizable values are determined by discounting the expected future cash flows at the effective interest rate inherent in the loans. When the amounts and timing of future cash flows cannot be reliably established, estimated realizable values are determined by reference to market prices for the loans or their underlying security value. As management identifies individual impaired loans, it assigns a specific allowance to the loan and adjusts the general allowance accordingly.

3. Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. The Corporation reviews its overall allowance for loan loss and this process is subject to significant management judgement. Also, in determining estimates of net realizable value for its investments, the Corporation relies on assumptions regarding financial performance as well as general business economic conditions that prevail and are expected to prevail. Assumptions underlying the investment valuations are limited by the availability of reliable data and the uncertainty of future events. In addition, there is management judgement involved in estimating the fair value of assets held for resale. There is also judgement with respect to management's estimate of losses on loans as a result of the guarantee programs. Due to uncertainties inherent in these estimation processes, it is possible that changes in the future conditions may cause recorded amounts to change by a material amount in the near term.

4. Loan Programs

a) Capital Loan Program

Loans are repayable over terms not exceeding 25 years and bear interest at rates between 5% and 13.5%. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

b) Investment Loan Program

Investment loans bear interest at rates between 6.5% and 10.5% and are repayable over terms not exceeding 25 years. Security on the loans varies and may include mortgages on real property, security agreements and guarantees.

c) Production Loan Program

Production loans were disbursed in 1986 to provide farmers, bee colony owners, potato producers and greenhouse operators with loans bearing interest at 6%, repayable in equal principal instalments over a term of three years. Amounts in arrears are at prime plus 2%. Amendments to the program allowed the borrowers to reschedule their outstanding loans to mature in 1997. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees and general security agreements.

d) Livestock Cash Advance Program

Effective August 1, 1993, customers with livestock cash advances began repaying the loans, bearing interest at the bank prime rate plus 2% over a maximum five-year period. Subsequently, some loans were rewritten with longer terms to assist borrowers to repay their loans. These amended loans bear interest at an average rate of 9%.

The loans are secured by promissory notes, and where applicable, by guarantees.

e) Spring Seeding Loan Program

During the 1992 fiscal year, the Corporation paid out $48.6 million to honour guarantees on loans granted by financial institutions under the Spring Seeding Loan Program. The loans bear interest at prime plus 2%.

The loans are secured by promissory notes and, where applicable, by guarantees and general security agreements.

f) Counselling and Assistance For Farmers Program

Effective August 1, 1992, ACS assumed responsibility for loans and guarantees which were outstanding under the Counselling and Assistance For Farmers Program. New guarantees were not issued under this program by the Corporation. The existing guarantees had been renewed until March 31, 1995 at which time the program was terminated.

The majority of the loans under this program are in default, had judgements obtained on them and bear interest at 5%.

The loans are secured by way of an assignment of security from the original lender.

g) Agri-Food Equity Fund (AFEF) debentures

On February 28, 2003, the AFEF debentures were transferred to ACS at their net book value. AFEF debentures include interest-bearing instruments at rates ranging from 6% to 15% with maturities extending to the year 2007. The profitability of the investee determines the repayment of principal and interest on the participating debenture.

5. Loans Receivable

	2004			2003		
	Gross	Allowance	Net	Gross	Allowance	Net
	(in thousands of dollars)			(in thousands of dollars)		
Capital Loans	**42,734**	**11,760**	**30,974**	51,459	15,570	35,889
Investment Loans	**320**	**155**	**165**	352	69	283
Production Loans	**933**	**567**	**366**	1,438	841	597
Livestock Cash Advances	**477**	**311**	**166**	581	354	227
Spring Seeding Loans	**9**	**3**	**6**	13	4	9
Counselling and Assistance For Farmers Loans	**903**	**903**	**-**	1,100	1,100	-
AFEF debentures	**8,634**	**5,455**	**3,179**	7,058	3,808	3,250
	54,010	**19,154**	**34,856**	62,001	21,746	40,255

During the year, a number of the Corporation's customers refinanced their Production Loans, Livestock Cash Advances, Spring Seeding Loans and Counselling and Assistance For Farmers loans under the Capital Loan Program.

6. Investments

	2004	2003
		(in thousands of dollars)
Common shares	**7,640**	7,550
Preferred shares	**5,825**	5,574
Agreement for sale	**2,700**	2,700
	16,165	15,824
Less: provision for investment loss	**(11,237)**	(10,139)
	4,928	5,685

On February 28, 2003, the Corporation signed an agreement for sale for one of its investments. The first payment is due December 31, 2004.

7. Assets Held for Resale

	2004	*2003*
		(in thousands of dollars)
Cost	**7,760**	8,905
Provision for losses	**(2,874)**	(2,853)
	4,886	6,052

Assets acquired are a result of settlement, quit claim or foreclosure and the Corporation actively pursues the sale of these assets in a timely manner.

8. Borrowing

Sections 17 and 19 of *The Agricultural Credit Corporation of Saskatchewan Act* allow the Corporation to borrow, with the approval of the Lieutenant Governor in Council, monies from various sources as it deems necessary for its purposes. Section 22 restricts total borrowing by the Corporation to $2 billion.

a) Long-term debt

All long-term debt is repayable to the Province of Saskatchewan General Revenue Fund. Interest is payable semi-annually with principal due at maturity on the debenture. Other loans payable are non-interest bearing with no repayment terms.

The weighted average interest rates of this debt follows:

Year of Maturity	***2004***		*2003*	
	Amount due (in thousands of dollars)	**Weighted average interest rate**	**Amount due** (in thousands of dollars)	**Weighted average interest rate**
Debentures	–	–	13,517	11.59%
Other – AFEF loans	**10,250**	–	10,250	–
Total	**10,250**	–	23,767	11.59%

b) Notes payable

	2004	*2003*
	(in thousands of dollars)	
Notes payable	**9,100**	10,100

Notes payable are due to the Province of Saskatchewan General Revenue Fund within 90 days. Interest is charged at 1.97% (2003 - 3.19%).

9. Interest and Dividend Income

	2004	*2003*
	(in thousands of dollars)	
Loans	**4,198**	5,222
Interest recovery on impaired loans	**28**	168
Investments	**178**	12
Other interest	**3**	2
Dividend income	**218**	-
	4,625	5,404

10. Commitments

Guaranteed loans under *The Agricultural Credit Corporation of Saskatchewan Act*

a) Guaranteed Vendor Mortgage

Guarantees may be provided by the Corporation to vendors under the Guaranteed Vendor Mortgage program for the sale of farmland and existing improvements. The guarantees are for 100% of the principal amount outstanding. The contingent liability of the Corporation for guaranteed vendor mortgages outstanding at March 31, 2004 is $270,234 (2003 - $342,989).

b) Livestock Drought Loan Program (LDLP)

The Livestock Drought Loan Program was enacted under *The Agricultural Credit Corporation of Saskatchewan Act* in response to the severe drought experienced throughout the province. The loans were made through financial institutions and are 100% guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2004 is $10,432,840 (2003 - $11,508,170). The Corporation has recorded a provision of $1,800,000 to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. In addition, the first year's interest on the loans was in the form of a grant directly to the lenders on behalf of the participants. The interest paid on these loans was $535,026. All loans are to be fully repaid by December 31, 2006.

c) BSE Livestock Loan Guarantee Program

In September 2003, the BSE Livestock Loan Guarantee Program was enacted under *The Agricultural Credit Corporation of Saskatchewan Act* in response to the May 2003 border closure. The program was designed to provide support to livestock producers affected by export market restrictions and to assist with cash flow. The loans were made through financial institutions and are 100% guaranteed by ACS. The contingent liability of the Corporation under this program at March 31, 2004 is $35,350,605. The Corporation has recorded a provision of $5,295,000 to fund management's estimate of losses on loans as a result of the anticipated guarantee payments under the program. All loans are to be repaid in full by January 31, 2008.

11. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown controlled departments, agencies and corporations with which the Corporation is related. Account balances from these transactions are included in the balance sheet and are settled on normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described in the financial statements and notes thereto.

At March 31, 2004, the Corporation owes $ nil (2003 - $761,850) (included with interest and other accrued payables) to the Province of Saskatchewan General Revenue Fund for interest on long-term debt. At March 31, 2004, the Corporation has a receivable due from the General Revenue Fund of $4,259,000 (2003 - nil) for the loan loss funding on the BSE Program.

During the year, the Corporation was responsible for collection of inactive accounts on behalf of Saskatchewan Crop Insurance Corporation (SCIC) and Lands Branch. For these services, a commission of $19,218 (2003 - $41,045) was received from SCIC and paid back to Province of Saskatchewan General Revenue Fund.

All administration expenses for the Corporation are paid for by SAFRR. These costs amounted to approximately $1,780,000 (2003 - $1,645,000).

12. Change in Working Capital Other Than Cash

	2004	*2003*
	(in thousands of dollars)	
Decrease in accrued interest on loans receivable	**225**	1,020
Decrease in accrued interest on debt payable	**(961)**	(520)
Decrease in assets held for resale	**1,166**	1,622
Decrease (increase) in accounts receivable	**64**	(32)
Decrease in unexpended grant repayable	**–**	(423)
(Increase) decrease in other operating activities	**(1,859)**	113
Increase in due from General Revenue Fund	**(4,259)**	–
	(5,624)	1,780

13. Financial Instruments

Fair Values

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Corporation's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Corporation has determined the fair value of its financial instruments as follows:

a) Cash, short-term investments, accounts receivable, due from General Revenue Fund, interest and other accrued payables and notes payable.

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Corporation. With no available market information and the diverse nature of the loan portfolio, it was not deemed practicable to determine the fair value with sufficient reliability.

c) Long-term debt payable:

The long-term debt payable is non-interest bearing and has no fixed repayment terms, and is not practicable to determine its fair value.

d) AFEF debentures and investments:

Fair value was not established for the AFEF debentures and investments due to there being no established market for the investments made by the Corporation.

e) The estimated fair values of the Corporation's debt instruments are as follows:

	2004		*2003*	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
	(in thousands of dollars)		(in thousands of dollars)	
Debentures payable	-	-	13,517	14,097

Credit Risk Management

Credit risk arises from potential for borrowers to default on their contractual loan obligations. Credit exposure on the Corporation's loan portfolio is managed through appropriate due diligence and account administration. To minimize the credit risk associated with the loans, the Corporation requires security agreements and personal guarantees on all loans.

Credit risk also arises from the potential that an investment will fail to perform its obligations. The Corporation has a mandate to promote, encourage and contribute to the development of agriculture in Saskatchewan, which involves start-up operations, new company products and expansions. The Corporation conducts a thorough due diligence process prior to committing to the investments, and actively monitors the financial health of its investments on an on-going basis.

Interest Rate Risk Management

The Corporation controls interest rate risk by managing the interest charged on the loan portfolio against the interest cost incurred on the borrowings from the Province of Saskatchewan General Revenue Fund.

14. Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Government of
Saskatchewan

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